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ABSTRACT

Testimonies are presented on two bills to amend the revenue bond section of the Home Rule Act to permit the District of Columbia to sell revenue bonds to borrow money to finance student loans. The issue regarding H.R. 6010 and H.R. 6276 is whether the District should be allowed to make its own determination regarding the advisability of establishing a loan program backed by the sale of revenue bonds. Because bonds issued to finance college programs would not have any federal or local governmental guarantees, their success would be largely dependent on the creditworthiness of participating educational institutions and the individual borrowers. The legislation is important to colleges and universities as well as to students, since without adequate financing, students will not be able to afford higher education and enrollment could drop heavily. About one-half of the students enrolled in the District's higher education institutions come from the Washington metropolitan area. With the efforts to cut back on student aid generally, universities in the District need to seek some other sources of student loan funds. A chart featuring the state income taxability of municipal bonds by the 50 states and the District of Columbia is presented that includes both individual and corporate investors. (SW)

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REVENUE BONDS TO FINANCE COLLEGE AND UNIVERSITY PROGRAMS

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HEARING AND MARKUP

BEFORE THE

SUBCOMMITTEE ON FISCAL AFFAIRS AND HEALTH

AND THE

COMMITTEE ON THE DISTRICT OF COLUMBIA HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

H.R. 6010 AND H.R. 6276

TO AMEND THE REVENUE BOND SECTION OF THE HOME RULE ACT FOR THE PURPOSE OF PROVIDING FOR STUDENT LOANS

MAY 26 AND JUNE 23, 1982

Serial No. 97-20

Printed for the use of the
Committee on the District of Columbia

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H.R. 6010 AND H.R. 6276, TO AMEND THE REVENUE BOND SECTION OF THE HOME RULE ACT

WEDNESDAY, MAY 26, 1982

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FISCAL AFFAIRS AND HEALTH,
COMMITTEE ON THE DISTRICT OF COLUMBIA,
Washington, D.C.

The subcommittee met, pursuant to call, at 9:30 a.m., in room 1310, Longworth House Office Building, Hon. Ronald V. Dellums (chairman of the subcommittee) presiding.

Present: Representatives Dellums, McKinney, and Dymally.

Also present: Daniel Lindheim and Robert Brauer, staff assistants; Johnny Barnes and Victor Fraser, staff counsels; John Gnorski, minority staff director; Jay F. Malcynsky, minority counsel; Ronald Hamm and Virginia Bancroft, minority staff assistants.

Mr. DELLUMS. Good morning. The subcommittee will come to order.

We are meeting today to hear testimony on H.R. 6276, a bill to amend the revenue bond section of the Home Rule Act to permit the District to sell revenue bonds for the purposes of providing for student loans. H.R. 6276 is identical to H.R. 6010, with the exception of a change of four words "For or on behalf" in the next to the last line of the bill. It is my intention to use H.R. 6276 as the focus of these hearings.

The bill before us, in fact, is a minor technical amendment to the bill, H.R. 4910, which was approved by this committee during the first session of this Congress and was signed into law earlier this year. All this bill does is to add the words "College and university programs which provide loans for the payment of educational expenses for or on behalf of students" to the long list of acceptable uses of revenue bonds.

The issue before us today is a limited one. It is whether the District should be allowed to make its own determination regarding the advisability of establishing a loan program backed by the sale of revenue bonds.

We are not here to determine the detailed design of such a loan program. Rather, it is the responsibility and the right of the people of the District to create whatever kind of program they deem to be in accord with their needs.

This morning we will receive testimony from three witnesses. The Chair and the ranking member believe that it would be expeditious if we could call all three of our witnesses this morning in one panel: Ms. Barbara Washington, the assistant administrator

for intergovernmental relations of the District of Columbia; Steve Reichenberg, the budget advisor to the chairperson of the District Council; and Father John Whalen, executive director of the Consortium of Universities.

We would like to bring all three of you forward and welcome all three of you this morning before the subcommittee.

Before we begin, the Chair would like to yield to my distinguished ranking minority member for oral comments he might have.

Mr. MCKINNEY. Thank you, Mr. Chairman.

I welcome the opportunity to consider the bills before us this morning as a means of progressing on the work we completed last year with regard to city bonding.

H.R. 4910, introduced by Mr. Bliley, was approved and became law in December of 1981. That legislation corrected the ambiguities in the original home rule charter with respect to the issuance of bonds by the District of Columbia. Although the city has not yet issued bonds as a result of these changes, a local university has, with the city serving as the conduit.

At the time we considered H.R. 4910, we were aware of the fact that the bill did not give authority for bonds that would provide funds for student loans. A suggestion was made at the last minute to correct that oversight, but since the concept was new and untried, we consciously decided to address the matter at a later time. That time has now arrived.

H.R. 6010 and H.R. 6276, bills that are almost identical, would add language to the appropriate section of the home rule charter which would permit the issuance of revenue bonds designed to provide resources for student loans. As a cosponsor of one of these bills, I fully support giving this authority to the District of Columbia.

I do have some questions, and I hope to create a complete hearing record today so that we can have early passage of a bill. I thank the Chairman for his efforts to hold hearings in a timely manner, and look forward to the testimony of our witnesses, all of whom are very familiar to this committee.

I would also, Mr. Chairman, ask unanimous consent that a statement by Mr. Bliley be included in the record.

Mr. DELLUMS. Without objection, so ordered.

[The prepared statement of Mr. Bliley follows:]

PREPARED BY REPRESENTATIVE THOMAS J. BLILEY, JR.

Mr. Chairman, I am pleased that we are here today for a hearing on a bill that will further perfect the bonding authority of the District of Columbia that we addressed last year with H.R. 4910. We have two almost identical bills before us and I am a co-sponsor of H.R. 6276.

When I was approached by a the consortium of universities with the idea of this legislation late last year, I admit that I had some reservations. These centered mostly around the obligation for the bonds and the appropriateness of the use of industrial development bonds for a student loan program. Although I still have a number of questions that I intend to ask and some remarks on legislative intent that I intend to make, I can tell you that this idea seems to me to be very much in line with the President's proposals for education assistance and for a New Federalism.

Currently every State in the Union has a guaranteed student loan program. These programs are federally guaranteed at all levels and that fact has allowed a

situation to arise whereby many States have been able to earn a profit off of their bond issues at the expense of the Federal Government and the American taxpayers. I certainly feel that there is a need for student loans in this country, especially considering the dramatic increase in tuition that graduate and professional schools have experienced.

The proposal outlined by Father Whalen of the consortium appears to have a great deal of merit. These universities of the District are faced with a situation where the District does not have a student loan program. Since few States will fund a student for attending an out-of-State school and most of the students we are talking about are not from the District, there is no where for them to obtain help except from the Federal Government. This puts the District in a unique position to implement a program that a number of States are eagerly looking at as a means to continue to insure that we have an adequate pool of highly trained doctors, scientists and other professionals.

I do not want to take up any more time with my statement, other than to say that I support the concent of this bill and I will have a number of questions about the specifics of its implementation for the witness.

THE EIGHTEENTH AND COLUMBIA ROAD BUSINESS ASSOCIATION,
Washington, D.C., June 4, 1982.

Re no D.C. hearings held on H.R. 6276 and Congress should be aware of this.

Hon. STEWART B. MCKINNEY,
Ranking Minority Member, District of Columbia Committee, Longworth House Office Building, U.S. House of Representatives, Washington, D.C.

DEAR CONGRESSMAN MCKINNEY: I am writing to you, as one of the co-sponsors of the new bill, H.R. 6276, "To amend the District of Columbia Self-Government and Governmental Reorganization Act to allow the issuance of revenue bonds to finance college and university programs which provide student educational loans."

On the face of it, H.R. 6276 appears to be a fine bill, and I do think its objectives have merit although I doubt that the District of Columbia should be among the first cities of the nation to embark on such an ambitious program.

Let me point out, first, that the D.C. Government has held no hearings on H.R. 6276, and I implore you to hold up all supporting action in the Committee on the District of Columbia until such time as the D.C. City Council has held hearings on this far-reaching bill, H.R. 6276, and developed some legislative history for the Congress to consider.

I say this because H.R. 6276 would amend the District of Columbia Self-Government and Governmental Reorganization Act which is the legislation the Congress adopted just a few short years ago to give home rule to District Citizens.

Now, it is clear, that in the absence of hearings by the D.C. City Council that H.R. 6276 is an end-run around the D.C. City Council, even though that may not be the intent.

There is an education committee in the D.C. City Council and I am absolutely certain that the City Council Education Committee is quite capable of holding hearings and getting a committee report, a transcript of the hearings, and the testimony of witnesses to your D.C. Committee in a period of a couple of months at most—especially since they must be aware of the keen interest in H.R. 6276 of your committee.

I am unaware of a single legislative bill which the Congress has adopted since the passage of the D.C. Home Rule Act (the D.C. Self-Government and Governmental Reorganization Act) without prior hearings by the D.C. City Council which is the legislative body of the Government of the District of Columbia, but I do not have to tell you that, do I?

I am disturbed that this far-reaching bill, which involves the District of Columbia Government and its citizens in a program which over the years will surely amount to tens of millions of dollars, may be one of the first important measures which the Congress may adopt without prior hearings by the D.C. City Council—the very same D.C. City Council which your Committee took such an important role in creating just six short years ago.

HISTORY OF ACTION BY THE D.C. GOVERNMENT IS SHORT ONE

I believe your House D.C. Committee should have listened more carefully than it apparently did when Stephen L. Reichenberg, Budget Director of the D.C. City Council testified before you and the other Members on May 26, 1982. Mr. Reichenberg's printed statement and testimony reads in part as follows:

"The Chairman of the Council, Arrington Dixon, supports the passage of H.R. 6267. . . . The Council of the District of Columbia passed a resolution endorsing the amendment which you are considering today on May 11, 1982. A copy of that resolution is attached to this statement."

Now, clearly that does not say that the City Council held hearings on H.R. 6276 as it should have done, it does not say that a single citizen testified in support of H.R. 6276. How can Congress proceed with H.R. 6276?

It disturbs me that the City Council of the District of Columbia did not hold hearings and did not hear from the distinguished city witnesses your Committee heard on May 26, 1982, and here I refer to City Council Budget Director Stephen L. Reichenberg: Barbara C. Washington, Esq., Assistant City Administrator for Intergovernmental Relations; and the Reverend John P. Whalen, executive director of the Consortium of Universities of the Washington metropolitan area.

Surely each of these distinguished and capable witnesses is well aware of the long effort, stretching over many years, which culminated in the Congressional adoption of the D.C. Home Rule Act (the D.C. Self-Government and Governmental Reorganization Act) which was approved December 24, 1973. I am certain that each of these educational and governmental leaders would have been extremely happy to have testified before the D.C. City Council on this legislation, along with the citizens of the District of Columbia the universities and colleges interested in this legislation are educating or have educated. But they were never invited to testify before the D.C. City Council.

Clearly, they were co-opted and pre-empted and prevented from being City Council witnesses when your Committee decided to hold hearings and push this legislation along even though it required the by-passing of the City Council. By the time they are heard—if ever—by the D.C. City Council the Congress will have—unless you act at once—adopted H.R. 6276 and there will be no reason for the D.C. City Council to hold hearings on H.R. 6276 as well as on most other measures—this much is clear.

What a hard lesson that will be to the young people in the city's colleges and universities who are interested in government of, by, and for the people to use the phrase made famous by Abraham Lincoln who founded the Republican Party of which you are a leading light.

The lesson I am referring to is that the citizens and taxpayers and business people of the District of Columbia don't have to be heard, that they can be by-passed with impunity by the Congress, and that the D.C. City Council need not be taken seriously. That is a bitter, unjustified lesson you must reject.

That lesson, once learned, will continue for many years to plague the relations of the D.C. Government and its citizens with the Congress.

Obviously, the Congress should not take steps to support this tough lesson, and the concerned colleges and universities of the District of Columbia should not be pressing this lesson on their students by example.

QUESTIONS WHICH YOUR COMMITTEE SHOULD PROVIDE ANSWERS TO

Should not the high number of defaulted student loans made by the Federal Government recommend that such a program as H.R. 6276 would establish should be given longer consideration and study by your Committee?

Would the taxpayers of the District of Columbia be called upon to bail out the program H.R. 6276 would establish if its loans reached $20 million, $40 million, $100 million? The sponsors say no, but the bill doesn't.

Why is H.R. 6276 needed when the new Washington Times reported on May 31, 1982 that in briefings with top officials from the Office of Management and Budget connected with the White House these facts about the president's proposed budget were presented: that almost seven million college awards and loans will be available to students or their parents through federal student aid programs. This federal assistance will total $13 billion (including principal amounts of loans) for fiscal 1983. Real spending for higher education per student came to $220 in 1960, $394 in 1970, and will total $550 for every student enrolled in 1982? Was your Committee aware of these huge sums?

Why should the D.C. Government and its citizens be providing tax relief subsidies now in H.R. 6276 to students enrolled in the colleges and universities who come from elsewhere in the country and abroad? The testimony of the Reverend John P. Whalen, executive director, the Consortium of Universities of the Washington Metropolitan Area, made it perfectly clear that: "Approximately one-half of the students enrolled in these institutions come from the metropolitan area and half come from elsewhere in the country and abroad." Is it clear that subsidies through tax

relief is the major purpose of H.R. 6276? Why shouldn't students from the other states be assisted by those states instead of by the D.C. Government? Why should students from abroad be assisted by the D.C. Government? Isn't that a Federal role?

Reverend John P. Whalen testified May 26, 1982 that "There would be relatively little income lost to the U.S. Treasury since the only loss would be on taxes from interest paid on the bonds". Were there any estimates of tax losses to the U.S. Treasury, and to the District Government by experts? If so, what are the losses involved in the program H.R. 6276 would establish? If there was no expert testimony, why not, aren't tax losses important?

Rev. John P. Whalen testified May 26 that, at the present time, no bonds have been issued by any jurisdiction to fund a student loan program that is not backed by a federal guarantee. Since this is true, why should Congress be so hasty in giving its endorsement to this untried and untested program? Shouldn't Congress wait at least a year to see what happens with this type of program in those few jurisdictions which have statutory authorization for such programs as H.R. 6276 would establish? We doubt that D.C. should be involved at all.

If Congress gives its great weight and prestige to this type of program won't a lot of cities and states follow the example of the Congress and consider it safe to establish programs similar to those H.R. 6276 will set-up? If they fail, will Congress bail everyone out?

Reverend John Whalen, speaking for the Consortium of Universities, at your May 26, 1982 hearing emphasized (p. 6) "Security Against Defaults", and "Incentives Against Default" (p. 7). Will this "Security" and these "Incentives" stand the test of time? What if they don't? Will the Congress be called upon to bail this program out, having given its weight and prestige to it? Please amend H.R. 6276 to protect D.C. citizens with a no bail-out clause—and protect the Congress from future bail-outs.

Reverend John P. Whalen testified May 26 that quote: (p. 7)—"In addition, it probably will be necessary to establish back-up security to assure that the amount in the Guarantee Fund is adequate to cover any and all defaults. This back-up security might take a number of forms, such as the obligation of the benefiting universities to make up, on a pro-rata basis, any deficiencies." Shouldn't these things be nailed down before the Congress puts its seal of approval on this completely new, untried, and unproved program? This kind of language bodes ill for District taxpayers and Congress.

Is Congress acting so hastily in approving H.R. 6276 because of such assurances as these in the testimony of the Reverend John Whalen where he states that: "Third, it would be the student's own alma mater and not the Federal Treasury that would be ultimately responsible for covering any default"? How reliable is this untried, untested program, should Congress back it? We don't think Congress should adopt H.R. 6276 without some protective amendments.

Congress acted wisely in amending the D.C. Home Rule Act to permit the issuance of tax-free bonds to build facilities at George Washington University. And the City Council acted wisely in passing an Act to issue revenue bonds for the building of such university facilities. I think the Reverend John Whalen was right when he said that: "Only a few jurisdictions have statutory authorization for such a program, and in these states the program is still in the formative stages. With so little experience to rely on". In view of this lack of concrete experience, and the huge default rates on Federal student loans, shouldn't Congress wait for another year to let the states develop some experience to guide the Congress and the D.C. Government on H.R. 6276?

I hope this letter and the questions submitted are helpful to you in your consideration of H.R. 6276, as well as to all other Committee members.

Please include this letter in the printed testimony on H.R. 6276.

Respectfully submitted,

J. GEORGE FRAIN,
Secretary.

Mr. DELLUMS. Ms. Washington, you may begin your testimony.

14-283 O - 83 - 2

STATEMENTS OF BARBARA WASHINGTON, ASSISTANT CITY ADMINISTRATOR FOR INTERGOVERNMENTAL RELATIONS, THE DISTRICT OF COLUMBIA, ACCOMPANIED BY JEFFREY L. HUMBER, JR., DEPUTY TO CITY ADMINISTRATOR, DISTRICT OF COLUMBIA, AND WILLIAM KAO, ASSISTANT CITY TREASURER, DISTRICT OF COLUMBIA; STEVE REICHENBERG, BUDGET DIRECTOR, DISTRICT OF COLUMBIA CITY COUNCIL; AND FATHER JOHN WHALEN, EXECUTIVE DIRECTOR, CONSORTIUM OF UNIVERSITIES, ACCOMPANIED BY DANA T. ACKERLY, COUNSEL

Ms. WASHINGTON. Good morning, Mr. Chairman, Mr. McKinney and Mr. Dymally.

I am also accompanied this morning by Mr. Jeffrey Humber, the Deputy to the City Administrator; and Mr. William Kao, the Assistant Treasurer.

I appreciate the opportunity to appear before you today in support of H.R. 6276, a bill to amend section 490, subsection (a)(1) of the District of Columbia Self-Government and Governmental Reorganization Act to allow the issuance of revenue bonds to finance college and university programs which provide student educational loans.

H.R. 6276 would permit the District of Columbia to issue bonds on behalf of the universities without pledging the full faith and credit of the District of Columbia or that of the Federal Government. Such bonds would be secured by student repayments of principal and interest on the loans. The District is confident that beneficial programs can be developed and financed in this manner, in participation with local higher educational institutions.

Because bonds issued to finance such programs would not have any Federal or local governmental guarantees, their success would be largely dependent on the creditworthiness of participating educational institutions and, in turn, on the creditworthiness of the individual borrowers. This is an entirely appropriate fact of the financial marketplace, and in no way undermines the potential benefit in such contemplated programs. Such programs will, therefore, be of greatest assistance in providing student loan financing to middle-income families, a sector of our population that has been increasingly squeezed by the twin pressures of rising tuition costs and diminishing loan availability.

The Nation is experiencing major cutbacks at all levels of support for education, including the shifting of funding priorities at the Federal level. After decades of strong support, higher educational opportunity is threatened by the tight fiscal policies that have curtailed expansion and fostered widespread economizing increasing the immediate cost burden on our students.

The administration has recommended major changes in the guaranteed student loan program and the elimination of the national direct student loan program in fiscal year 1983. The dismantling of Federal funding programs for education is occurring at an accelerated rate. Should the efforts of this Congress fail and the Federal Government be unable to reaffirm its historic commitment to maintaining educational institutions for students, we must attempt to implement funding alternatives that, at least in part, fill the resulting void. Let me stress that there are no local alternatives that

can fully replace drastically curtailed Federal loan programs and, in particular, the guaranteed student loan program.

Our first and foremost recommendation to the committee must, therefore, be a strong statement of support for the efforts of this Congress to avoid diminishing or abandoning our national commitment to investment in higher education. To tolerate such a step backward would be a false and short-term economy.

At the same time, Mr. Chairman, we must be cognizant of the increasingly crucial need to keep the doors of higher education open to those whose very presence in the low-income segment of our society is often evidence of their historical lack of such educational opportunities. The Federal Government must stand fast in its commitment to providing financial assistance in this category. Nonguaranteed local bond financing cannot replace Federal support in this vital area. If we are to avoid a widening gap in educational opportunity and a widening gap in socioeconomic reality, effective Federal programs to this end must attain heightened, not diminished, national priority.

Thus, we strongly support this committee's prompt consideration of this measure, and look forward to final passage by the full House and Senate.

Finally, Mr. Chairman, we are pleased to report that the Council of the District of Columbia had its legislative session held on May 11, 1982, and unanimously adopted a resolution introduced by Chairman Arrington L. Dixon, and cited as the District Charter College and University Programs Loan Authorization Amendments Endorsement Resolution of 1982, recording its support of the pending measure.

Thank you for this opportunity to present the District's views on H.R. 6276.

Mr. DELLUMS. Ms. Washington, thank you for your opening remarks.

[The prepared statement of Ms. Washington follows:]

PREPARED STATEMENT OF BARBARA C. WASHINGTON, ESQ., ASSISTANT CITY ADMINISTRATOR FOR INTERGOVERNMENTAL RELATIONS

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today in support of H.R. 6276, a bill to amend section 490(a)(1) of the District of Columbia Self-Government and Governmental Reorganization Act to allow the issuance of revenue bonds to finance college and university programs which provide student educational loans.

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Because bonds issued to finance such programs would not have any Federal local government guarantees, their success would be largely dependent on the creditworthiness of participating educational institutions and, in turn, on the creditworthiness of the individual borrowers. This is an entirely appropriate fact of the financial marketplace, and in no way undermines the potential benefit in such contemplated programs. Such programs will, therefore, be of greatest assistance in providing student loan financing to families, a sector of our population that has been increasingly squeezed by the twin pressures of rising tuition costs and diminishing loan availability.

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strong support, higher educational opportunity is threatened by tight fiscal policies that have curtailed expansion and fostered widespread economizing, increasing the immediate cost burden on our students.

The administration has recommended major changes in the guaranteed student loan program (GSL) and the elimination of the national direct student loan program (NDSL) in fiscal year 1982. The dismantling of Federal funding programs for education is occurring at an accelerated rate. Should the efforts of this Congress fail, and the Federal Government be unable to reaffirm its historic commitment to maintaining educational institutions for students, we must attempt to implement funding alternatives that, at least in part, fill the resulting void.

Let me stress that there are no local alternatives that can fully replace drastically curtailed Federal loans programs, and in particular, the guaranteed student loan program. Our first and foremost recommendation to the committee must, therefore, be a strong statement of support for the efforts of this Congress to avoid diminishing or abandoning our national commitment to investment in higher education. To tolerate such a step backword would be a false and short-term economy.

At the same time, we must be cognizant of the increasingly crucial need to keep the doors of higher education open to those whose very presence in the low-income segment of our society is often evidence of their historical lack of such educational opportunities. The Federal Government must stand fast in its commitment to providing financial assistance in this category. Non-guaranteed local bond financing cannot replace Federal support in this vital area, and if we are to avoid a widening gap in educational opportunity—and a widening gap in socio-economic reality—effective Federal programs to this end must attain heightened, not diminished, national priority.

Thus, we strongly support this committee's prompt consideration of this measure and look forward to final passage by the full House and Senate.

Finally, Mr. Chairman, we are pleased to report that the Council of the District of Columbia, at its legislative session held on May 11, 1982, unanimously adopted a resolution, introduced by Chairman Arrington L. Dixon and cited as the "District charter college and university programs loan authorization amendments endorsement resolution of 1982," recording its support of the pending measure.

Thank you for this opportunity to present the District's views on H.R. 6276.

Mr. DELLUMS. We will now move to Mr. Reichenberg.

STATEMENT OF STEVE REICHENBERG

Mr. REICHENBERG. Thank you, Mr. Chairman. Good morning.

I appreciate the opportunity to appear before you today to provide testimony on H.R. 6010 and H.R. 6276, bills to amend the District of Columbia Self-Government and Governmental Reorganization Act to allow the issuance of revenue bonds to finance college and university programs which provide student educational loans. Both H.R. 6010 and H.R. 6276 would empower the District Council to pass and act to issue revenue bonds to borrow money to finance student loans.

Currently, the Council can issue revenue bonds to borrow money for college and university facilities constructions, among other undertakings. This year, the Council did, in fact, pass an act to issue revenue bonds for the borrowing of money for additional facilities at the George Washington University. The legislation you are considering would broaden the power of the D.C. Council by adding student loan financing as a legitimate undertaking for which revenue bonds could be issued.

The Chairman of the Council, Arrington Dixon, supports that passage of H.R. 6276. It is critically important for a jurisdiction to have within its power a mechanism for financing the higher education of its young people. These resources will help the institutions of higher learning in the District of Columbia in a time of possible financial difficulty. H.R. 6276 is the preferable of the two bills be-

cause it would more broadly define the program for which revenue bonds and student loans could be issued.

Students in the District of Columbia face a financial pinch which their brothers and sisters of 10 years ago did not encounter. The cost of education has soared. At the same time, the average household is less able to pay for the cost of higher education of its children than it was 10 years ago. Over the past 10 years, the costs of housing and transportation have grown faster than the average household's income. With the greater share of the average household budget expended on these two essential items, there is less remaining for educational and other expenses. The cost of borrowing money is much higher than 10 years ago, which compounds the problem. The potential reduction in Federal funding for student loans threatens to reduce the supply of funds available to students.

A student today is looking at three very real problems in the financing of his or her education: First, the need for funds, which is greater today than in the past; second, the availability of funds, which is less than 10 years ago; and third, the cost of funds, which is higher than before.

This legislation addresses one of these problems, the availability of funds. By this, it assures that the District of Columbia will have within its power a means to make financing available for higher education.

The colleges and universities in the District are looking at another problem. Without adequate financing, students will not be able to afford higher education and enrollment could drop precipitously. For this reason, the legislation is important to colleges and universities, as well as students.

The District of Columbia is privileged to be the home of many fine colleges and universities, including our own University of the District of Columbia. It is hoped that the legislation you are acting on today will make it possible for young people in the District of Columbia to pursue higher education at schools of their choice, including, of course, the University of the District of Columbia.

The Council of the District of Columbia passed a resolution endorsing the amendment which you are considering today on May 11, 1982. A copy of that resolution is attached to my statement. On behalf of the Council, I urge you to act favorably on H.R. 6276. This important measure will assure the educational and financial security of our students, colleges and universities alike.

Thank you.

Mr. DELLUMS. Thank you very much, Mr. Reichenberg, for your opening remarks.

[The prepared statement of Mr. Reichenberg follows:]

PREPARED STATEMENT OF STEPHEN L. REICHENBERG, BUDGET DIRECTOR, COUNCIL OF THE DISTRICT OF COLUMBIA

Thank you for the opportunity to appear before you today to provide testimony on H.R. 6010 and H.R. 6276, bills to amend the District of Columbia Self Government and Governmental Reorganization Act to allow the issuance of revenue bonds to finance college and university programs which provide student educational loans.

Both H.R. 6010 and H.R. 6276 would empower the Council to pass an act to issue revenue bonds to borrow money to finance student loans. Currently, the Council can issue revenue bonds to borrow money for college and university facilities, among other undertakings. This year the Council did, in fact, pass an act to issue revenue

bonds to borrow money for additional facilities at the George Washington University. The legislation you are considering would broaden the power of the District of Columbia Council by adding student loan financing as a legitimate undertaking for which revenue bonds could be issued.

The Chairman of the Council, Arrington Dixon, supports the passage of H.R. 6276. It is critically important for a jurisdiction to have within its power a mechanism for financing the higher education of its young people. These resources will help the institutions of higher learning in the District of Columbia in a time of possible financial difficulty. H.R. 6276 is the preferable of the two bills because it would more broadly define the program for which revenue bonds for student loans could be issued.

Students in the District of Columbia face a financial pinch which their brothers and sisters of ten years ago did not encounter. The cost of education has soared. At the same time the average household is less able to pay for the cost of higher education for its children than it was ten years ago. Over the past ten years, the costs of housing and transportation have grown faster than the average household's income. With a greater share of the average household's budget expended on these two essential items there is less remaining for educational expenses. The cost of borrowing money is much higher than ten years ago which compounds the problems. The potential reduction in Federal funding for student loans threatens to reduce the supply of funds available to students.

A student today is looking at three very real problems in the financing of his or her education. First, the need for funds which is greater today than in the past. Second, the availability of funds which is less than ten years ago. Third, the cost of funds which is higher than before. This legislation addresses one of these problems—the availability of funds. By this, it assures that the District has within its power a means to make financing available for higher education.

The colleges and universities in the District are looking at another problem. Without adequate financing, students will not be able to afford higher education and enrollment could drop precipitously. For this reason the legislation is important to colleges and universities as well as students.

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Mr. DELLUMS. The Chair will now recognize Father Whalen for his opening statement.

STATEMENT OF FATHER JOHN WHALEN

Father WHALEN. Thank you, Mr. Chairman and members of the committee.

My name is Father John Whalen. I am accompanied today by Mr. Dana Ackerly of the law firm of Covington & Berling. I am the executive director of the Consortium of Universities of the Washington metropolitan area. The consortium is an associataion of the major colleges and universities in the District of Columbia, including the American University, the Catholic University of America, George Washington University, Georgetown University, Howard University, University of the District of Columbia, Gallaudet College, Mount Vernon College, and Trinity College. The consortium was established to facilitate student exchanges, academic cooperation, cost containment and fiscal stability of its members.

I am very pleased to appear before this committee on a matter that is of utmost concern to the members of the consortium and all their students, both present and future. As this committee is well

aware, the need to provide adequate funding for higher education has received national attention, especially in light of the current state of our national economy and the Federal budget. H.R. 6276 would authorize the District of Columbia to establish a student loan program to supplement other available sources of financing for higher education. We urge the prompt, favorable consideration of H.R. 6276 by this committee.

The consortium institutions alone are a major contributor to the economy of this area. They currently make a net positive economic contribution to the Washington metropolitan area of approximately $1.6 billion annually.

In order to maintain the health of these institutions, it is necessary that loan funds be available to students who attend them. Approximately one-half of the students enrolled in these institutions come from the metropolitan area, and half come from elsewhere in the country and abroad. Virtually all of those students have some need for financial aid, given the escalating costs of attending institutions of higher education.

The current program of student aid consist chiefly of basic educational opportunities grants, Pell grants, supplemental educational opportunity grants, college work study, national direct student loans, and guaranteed student loans. With the efforts to cut back on student aid generally and on guaranteed student loans for graduate students and professional students, it is necessary for the universities in the Washington metropolitan area to seek some other source of loan funds so that money will be available to students when needed. The entire university community of Washington has gone on record as supporting a continuation of the guaranteed student loan programs, since this is the best possible program for students attending our institutions.

However, in the event of reduced guaranteed student loan money or a change in the nature of the program to reduce either the guarantee or the incentives to lending agencies to make these loans, universities will require a new source of funds. Students cannot obtain personal loans for their education at banks, because banks will simply not lend money for that purpose without a guarantee. H.R. 6276 would permit the District of Columbia to issue bonds on behalf of the universities without any financial or moral obligation on the part of the District of Columbia, and without any guarantee for these bonds from the District of Columbia or the Federal Government. The colleges would use proceeds from the bond issue to supplement other existing Federal programs, if needed, to permit students to attend our colleges and universities.

We are persuaded, because of the involvement of our own financial aid officers and loans being originated by banks and other lending institutions, that neither abuse nor fraud would exist. There would be relatively little income lost to the U.S. Treasury since the only loss would be on taxes from interest paid on the bonds and there would be no loss from defaults on loans, as is true under the existing programs.

Most of all, we ask the Congress to consider this legislation favorably since we fear that money for loans to students will not be available from any other sources if we cannot issue tax exempt bonds for this purpose. The individual institution's resources are

not such as to permit them to make such loans, and the banking community has informed us that money would not be made available for student loans if there were a change in the present guaranteed student loan program.

Mr. Chairman, I have submitted an outline of the proposed student loan program which, in the interest of time, I will not read.

But I would like to say that H.R. 6276 uses the phrase "educational expenses." It is our understanding that this phrase is intended to be broad enough to include any of the types of expenses for which loans may be made under the Government student loan program. This would include, but not be limited to, fees, tuition, room and board expenses, books and education-connected travel. We assume that the committee shares this view. However, to avoid the possibility of any future ambiguity, we suggest the committee may wish to address this point somewhere in the legislative history.

I appreciate very much the opportunity to present our views to the committee this morning, and I will be happy to answer any questions that you may have. Thank you, Mr. Chairman.

[The prepared statement of Father Whalen follows:]

PREPARED STATEMENT OF REV. JOHN P. WHALEN, EXECUTIVE DIRECTOR, CONSORTIUM OF UNIVERSITIES OF THE WASHINGTON METROPOLITAN AREA

My name is Reverend John P. Whalen; I am the Executive Director of the Consortium of Universities of the Washington Metropolitan Area. The Consortium is an association of the major colleges and universities in the District of Columbia, including The American University, The Catholic University of America, The George Washington University, Georgetown University, Howard University, University of the District of Columbia, Gallaudet College, Mount Vernon College and Trinity College. The Consortium was established to facilitate student exchanges, academic cooperation, cost containment and fiscal stability of its members.

I am very pleased to appear before this Committee today on a matter that is of the utmost concern to the members of the Consortium and all their students, both present and future. As this Committee is well aware, the need to provide adequate financing for higher education has received national attention, especially in light of the current state of our national economy and the federal budget. H.R. 6276 would authorize the District of Columbia to establish a student loan program to supplement other available sources of financing for higher education. We urge the prompt, favorable consideration of H.R. 6276 by this Committee.

I. THE NEED FOR H.R. 6276

The consortium institutions alone are a major contributor to the economy of this area. They currently make a net positive economic contribution to the Washington metropolitan area of approximately $1.6 billion annually. (See attached Econcomic Impact Statement).

In order to maintain the health of these institutions, it is necessary that loan funds be available to students who attend them. Approximately one-half of the students enrolled in these institutions come from the metropolitan area and half come from elsewhere in the country and abroad. Virtually all of those students have some need for financial aid, given the escalating costs of attending institutions of higher education.

The current programs of student aid consist chiefly of basic educational opportunities grants (Pell Grants), Supplemental Educational Opportunity Grant, College Work Study, National Direct Student Loans, and Guaranteed Student Loans. With the efforts to cut back on student aid generally and on guaranteed student loans for graduate students and professional students, it is necessary for the universities in the Washington metropolitan area to seek some other source of loan funds so that money will be available to students when needed. The entire university community of Washington has gone on record as supporting a continuation of the guaranteed student loan programs since this is the best possible program for students attending our institutions.

However, in the event of reduced guaranteed student loan money or a change in the nature of the program to reduce either the guarantee or the incentives to lending agencies to make these loans, universities will require a new source of funds. Students cannot obtain personal loans for their education at banks, because banks will simply not lend money for that purpose. H.R. 6276 would permit the District of Columbia to issue bonds on behalf of the universities without any financial or moral obligation on the part of the District of Columbia, and without any guarantee for these bonds from the District of Columbia or the Federal government. The Colleges would use proceeds from the bond issue to supplement other existing federal programs, if needed, to permit students to attend our colleges and universities.

We are persuaded, because of the involvement of our own financial aid officers and loans being originated by banks or other lending institutions, that neither abuse nor fraud would exist. There would be relatively little income lost to the U.S. Treasury since the only loss would be on taxes from interest paid on the bonds and there would be no loss from defaults on loans, as is true under the existing programs.

Most of all we ask the Congress to consider this legislation favorably since we fear that money for loans to students will not be available from any other source if we cannot issue tax exempt bonds for this purpose. The individual institutions' resources are not such as to permit them to make such loans, and the banking community has informed us that money would not be made available for student loans if there were a change in the present guaranteed student loan program.

II. OUTLINE OF PROPOSED SUPPLEMENTAL STUDENT LOAN PROGRAM

It should be emphasized that, at the present time, no bonds have been issued by any jurisdiction to fund a student loan program that is not backed by a federal guarantee. Only a few jurisdictions have statutory authorization for such a program, and in these states the program is still in the formative stages. With so little experience to rely on, our present thoughts are subject to change in response to the concerns of the various involved parties, such as the rating agencies, underwriters and bond counsel. Nevertheless, the following sets forth the basic elements that we believe are needed for a successful program.

1. Issuance of bonds.—Bonds would be issued by the District of Columbia and the proceeds deposited initially in a "Loan Fund" held by a trustee. Other funds, described below, would also be held by the trustee. The bonds would be revenue bonds and would not constitute any financial obligation on the part of the District of Columbia.

2. The application for, and the making of, student loans.—A student would consult with the student loan office at his D.C. university to determine his need for a supplemental loan, first taking into account other available resources, such as possible contribution from parents, other loan proceeds, and his own earning power. The supplemental loan program would be utilized only if all other funds proved to be inadequate. This need analysis could be performed by the university itself, or by the bank or servicing company that would service the loan. Following certification of need, a credit check would be performed upon the student and a co-signatory guarantor (presumably a parent). No loan would be made without the agreement of a parent or other co-signatory to stand behind the loan.

Monies to make the loan would be drawn down from the Loan Fund as tuition became due. Thus, although the loan might be approved in June, no money would be drawn from the Loan Fund until tuition was actually payable (presumably at the beginning of each semester). Pending the draw-downs, the money in the Loan Fund would be invested, and, assuming that market conditions permitted "positive arbitrage," the earnings on the Fund could be used to reduce the costs of the program.

3. Loan repayment.—No interest on the loan would be payable by the student as long as he maintained full-time student status. Rather, interest would be "capitalized" and added to the principal amount of the loan. Repayments of principal and interest would begin shortly after the student ceased full-time status. The rate of interest would be calculated to cover the interest rate on the bonds plus certain applicable fees and costs, such as origination fees, servicing fees, financing costs and all other costs of the program. Because the interest on the bonds would be at a tax-exempt rate, it is expected that the effective rate on the loan would be at least several percentage points lower than commercial rates.

4. Security against defaults.—In addition to the Loan Fund, the trustee would hold a "Guarantee Fund" into which would be deposited a certain percentage of the loan amount (*e.g.*, 2 percent) to establish security against any possible defaults in loan repayment. In view of the lack of experience with programs such as this, the

amount of this deposit cannot be determined with precision at the present time. The payment into the Guarantee Fund, however, would be made at the time of each draw-down and would cover both the "tuition" and the "capitalized interest" portions of the loan.

In addition, it probably will be necessary to establish back-up security to assure that the amount in the Guarantee Fund is adequate to cover any and all defaults. This back-up security might take a number of forms, such as the obligation of the benefiting universities to make up, on a pro-rata basis, any deficiencies. A "Reserve Fund" might also be established in the amount of one year's principal and interest on the bonds to "tide over" any period while a deficit in the Guarantee Fund was being made up.

5. Incentives against default.—The program will have several incentives against a student's defaulting on his loan that are not present in the federally guaranteed program. First, the loan would be referred to a collection agency upon default, and therefore all available remedies would be actively pursued. Second, the assets of the parent or other co-signatory would be standing behind the loan, providing both real security and a psychological incentive on the part of the student to comply with his obligation. Third, it would be the student's own alma mater and not the Federal Treasury that would be ultimately responsible for covering any default. Other incentives against default are being considered and may be incorporated into the final program.

6. Participation of all D.C. universities.—Although it would be possible to issue student loan bonds benefiting the students of only one D.C. university, it is presently contemplated that each bond issue would be created on a "pooled" basis and would provide student loan funds for all D.C. universities. Prior to each bond issue, each university would be asked to make an estimate of its student loan needs, and an attempt would be made to raise sufficient funds to cover the needs of all D.C. universities for the forthcoming two- or three-year period. If sufficient funds could not be raised, each university would share in the available funds on a pro rata basis.

III. THE SCOPE OF H.R. 6276

H.R. 6276 uses the phrase "educational expenses." It is our understanding that this phrase is intended to be broad enough to include any of the types of expenses for which loans may be made under the government student loan program. We assume that the Committee shares this view. However, to avoid the possibility of any future ambiguity, we suggest the Committee may wish to address this point somewhere in the legislative history.

I appreciate the opportunity to present our views to the Committee this morning. I will be happy to answer any questions that you may have.

Mr. DELLUMS. Thank you very much, Father Whalen. Ms. Washington, Mr. Reichenberg, and Father Whalen, we thank all three of you for your opening remarks.

Prior to moving to the question-and-answer phase of these proceedings, the Chair would like to recognize for the record the fact that our distinguished colleague, the gentleman from California, Mr. Dymally, is present. He is not a member of the subcommittee, but he is the author of this legislation and we certainly will, with time permitting, provide the gentleman with an opportunity to participate in these proceedings.

The Chair would now yield to my distinguished colleague from Connecticut, Mr. McKinney, for any questions he may have of the panel.

Mr. MCKINNEY. Thank you, Mr. Chairman.

In a sense, I am just going to ask a lot of questions to build the legislative record that Father Whalen was talking about so that we will be forearmed before we get to the floor again. I am getting very "floor shy" after the Olympic coin bill.

One of the stated reasons for this bill is to offset potential reductions in student aid programs. It now appears that these reductions aren't going to be that serious. But I have had the suggestion from

you in the past, Father Whalen, that you really need this program most for graduate students, medical students, and law students; is that a fair statement?

Father WHALEN. I would say so, Mr. McKinney, except that studies done by the National Association of Independent Colleges and Universities indicate that even last year, with greater funding in the guaranteed student loan program, there was a national shortfall of need of about someplace between $500 million and $800 million. So even with the existing level of our guaranteed student loans, we may very well have to use this mechanism.

Mr. MCKINNEY. So this would be a fallback program consortium of universities to use?

Father WHALEN. Yes, sir. We do hope that we never have to use it. As I pointed out earlier, the guaranteed student loan program is the very best for students. In the event that anything happens to that, we do need this legislation.

Mr. MCKINNEY. One of the Washington area universities announced an ambitious fundraising drive, one purpose of which is to generate funds for student loans. Do you think it is necessary to supplement existing and planned loan programs with an untested effort to sell bonds?

Father WHALEN. Yes, I really do, because if you look at the endowments of the local universities—I think the university you are referring to is Georgetown. Georgetown has an endowment of about $72 million. Income from the $72 million generates about $7 million a year. That $7 million, you have to realize that it is a very small part of the overall budget of Georgetown, which now amounts to about $260 million a year.

Georgetown is the richest of the bunch. George Washington University, which is larger than Georgetown, has an endowment of $21 million; Catholic University of America has an endowment of about $14 million; and American University has a budget that now runs about mid-$60 million, and has an endowment of about $4 million. So income from endowment, on the average, in our universities would keep the university running for about 1 day.

Mr. MCKINNEY. Now that you have thoroughly depressed me, we will plow on.

What is the average postgraduate tuition now, say, in medical school or law school.

Father WHALEN. In medical school, our tuitions vary widely. Howard is currently running, I think, around $4,000 to $5,000 a year. But George Washington and Georgetown University Medical School tuition runs about $17,500 a year. The reason for that is there isn't any Federal subsidy or any State subsidy or no capitation grants for students in our medical schools.

Most other States do have capitation grants, so that their tuition runs about $8,000. But ours is dynamite.

Mr. MCKINNEY. We have been through that, haven't we?

Father WHALEN. Yes.

Mr. MCKINNEY. Are you counting on any limit of loans to any one student, or what do you think the loan ratio will be? Will this just float?

Father WHALEN. I think it will float, depending upon the need. We will impose a needs test on the student to make sure that there

is a bona fide need for him to have this money. We will also do a credit check on the students and/or their parents.

I would like to say someplace in the record that I hope it is the intent of Congress that loans under this bill could be made either to students or others on behalf of students, parents, guardians, and the like.

Mr. McKINNEY. I am headed in that direction now to get the record going here. Exactly what kind of expenses do you envision that you would want this loan program to be able to cover?

Father WHALEN. I would say every educational-connected expense. That would be tuition fees, room and board, books, other educational materials that the students might need, and educationally connected travel so that they can get to and from college, or in the event that there is a program for a third year abroad program or some such thing, they could borrow money for that. My feeling is that it should be limited to educationally related expenses.

Mr. McKINNEY. Do you think the bill should specifically state eligible expenses?

Father WHALEN. I think it is better not to, because it is pretty generally understood. Under the present guaranteed student loan program, for example, they are spelled out in regulations. My feeling would be that that might be a matter that the city would want to address.

Mr. McKINNEY. In order to avoid the possibility of fraudulent use by these funds, which, as you are well aware, Congress is becoming aware of some of the problems we have had with other programs, the money is going to go directly to the university; do you approve of that?

Father WHALEN. Yes. The way we anticipate it being handled is that, once the city issues bonds for student loans, the bonds would be in the—I don't want to get locked into this because I haven't really thought this all the way through and haven't talked to the city about this yet—but the bond proceeds would go into the hands of a trustee bank or other lending institution. We would depend upon both our financial aid officers to do the needs test for the students and the bank to originate and service the loans and collect them. There would be fees for all of these things. The bond market is currently very soft, and this is an untried vehicle. It hasn't been tried yet by any States, although a number of them have authorizing legislation for it.

The key thing here, I think, Mr. McKinney, is the availability of money, because the bankers have flatly told me that, if there weren't the sweeteners in the present guaranteed student loan program and if there weren't the Federal guarantee behind it, if the student went into a bank to borrow money to go to school, they wouldn't lend it because they don't have anything to foreclose on. So the money wouldn't be available, and this would make it available.

Mr. McKINNEY. I have a few people up here paying off their student loans.

It is the most expensive possible type of loan to issue I have been told by the banks because, for the amount of money in return, they have the paperwork, the billing, the chasing, and so on, and so forth.

I assume this is a vehicle that is a court of last resort. In other words, everything else has been tried, and then you move into this.

Father WHALEN. We have discussed every possible source of funds and we can't come back with any bright ideas except this one.

Mr. MCKINNEY. So, in each individual case, you would go through all the other available sources, and then this would be the fallback roster?

Father WHALEN. Yes.

Mr. MCKINNEY. I do think there is a lot of confusion about the mechanics of this program, and I really don't know how to get all of this into the record. As you say, you haven't already figured the whole thing out.

For instance, who would establish the regulations for the program? Would it be the city?

Father WHALEN. It would be the city.

Mr. MCKINNEY. Who is going to do the chasing after the money?

Father WHALEN. The originating bank.

Mr. MCKINNEY. The originating bank?

Father WHALEN. Yes.

Mr. MCKINNEY. Is the university or the city going to guarantee or fall back on these things?

Father WHALEN. Well, the full faith and credit of the universities would have to stand behind the issue. Also, I am told that there are means of getting the loans guaranteed by some of the larger national banks. Of course, you pay a fee for that guarantee, but it might be worth paying because the interest rate in the market would be lower. So there could be a guarantee purchased, but it would be a private guarantee by a private bank in return for payment.

Mr. MCKINNEY. As the home rule charter is currently written, Council acts provide for these bonds as well as others that they are required to undergo the normal 30-day congressional review? Absent any change in the length of this review period, do you think this will cause any kinds of problems for the bond?

Father WHALEN. Everybody likes to go to market when there is a window there. If the Council authorizes the issuance of a bond act and we have to have a 30-day review period, the market might just disappear after the 30 days. It would be lovely to have authority to go forward with the issue immediately upon the approval of the Council if the market is right that day. We would very much like to go to market maybe 10 minutes after the Council authorizes the legislation.

On the other hand, we might want to wait for 30 days, depending upon the market.

Mr. MCKINNEY. I couldn't agree with you more. Thank you for the commercial for my bill. There is no Federal interest in this that I can see. Therefore, I don't know why there should be any congressional review. You are absolutely right, Father, and I can't emphasize this enough, Mr. Chairman. There is no sicker bond issue than one that sits in the pond waiting to be torn apart. One strikes when the door is open and moves quickly. Having suffered through New York City twice, I became well aware of this particular fact.

Barbara has been sitting here quietly thinking I am going to let her have a peaceful day.

I have a real problem here. The Washington Post, May 4, 1982, I read with joy that they approved of something the city did. It is called "Cheers for Tax Reform." However, in it they say that the City Council, in their astute wisdom, is going to tax the interest on State and local bonds purchased after 1991. I just find it absolutely amazing and rather confusing that the city is saying, "Gee, we want to do this tax-free bond thing to help students go to school, but, watch out, in 1991, you can take them and throw them in the garbage can." The program will have no value if these bonds are taxed, because the interest will be so bloody high in this particular milieu we are operating in. God hope it improves, but that is something the Father could pray for.

How do you get rid of this dichotomy of interest here?

Ms. WASHINGTON. I came forearmed this morning, Mr. McKinney. I am going to defer to Mr. Kao, the Assistant Treasurer. He would like to speak to that.

Mr. MCKINNEY. Welcome back to 1310. It is nice to see you.

Mr. KAO. Thank you.

If I could make a general comment, the primary benefit financially in a tax exempt municipal type bond is the exemption from Federal income tax. It is not at all uncommon for a particular State to hold the interest on municipal issued by other entities as taxable income.

So the District's action to make income on other entities' municipal bonds taxable, (a) would not be unusual in the overall national experience, and (b) would not remove the major financial advantage for this kind of bond.

Mr. MCKINNEY. I am still confused. I am just an old tire salesman.

In this same editorial—and I follow City Hall with eager anticipation day by day—you also say that you are going to use the Federal tax form exemptions. If, in truth, the Federal tax form exemptions exempts tax-free bonds, is this going to be one exception to your following the whole Federal pattern?

Mr. KAO. I am afraid I am not entirely expert with all the details of that particular legislation.

Mr. MCKINNEY. The editorial, for instance, says, "Hooray. By adopting the Federal definitions of 'gross income' and 'adjusted gross income' and by allowing District taxpayers to 'take'—well, they do use the word "most"—"of the Federal itemized deductions, the new law will greatly simplify tax preparations. For schedules A, B, C, D and E. * * * This simplification will save the city an estimated $298,000 next year on audits, printing and the like."

So I am assuming that this would be one of the exemptions.

Mr. KAO. If I could defer to Mr. Humber on that portion of your question?

Mr. MCKINNEY. Yes. We could have a conference committee here. That is fine with me. I just want to get the issue here. I am troubled.

Mr. HUMBER. Let us change plays on you again, Mr. McKinney.

I think we are confusing two things here. First, as I understand the tax conformity bill, which is what that editorial refers to, what

the District will move to is a posture whereby we will begin to tax the income from bonds issued by other municipalities and States, which is not an uncommon thing. District residents who buy District bonds would have the income tax exempt. A District resident who bought the bonds of Maryland or Connecticut or California would find that income taxable.

It is not an uncommon thing a State honors its own but does not honor another State's as a method of encouraging its residents to buy its own bonds.

Mr. MCKINNEY. That is what we needed for the record.

I would suggest to you in my usual sort of cautionary manner, you people down there in city hall, what you are going to ask the chairman and I to do is take a bill to a floor—which is a new idea, and I think an excellent one, I wouldn't be a cosponsor if I didn't—we are going to take a bill on the floor over there, and we are going to say that, in 1991, the city is going to tax you, you and you and yours and yours, but don't worry, they won't tax these, so we will still be able to sell them.

A cautionary word, Mr. Chairman, noted and taken. It is devastating. In fact, I am quite surprised it hasn't been noticed. I hopefully pray outside of this room it won't be noticed until later, because I wouldn't be surprised if we had a resolution of disapproval on the whole subject.

That is the end of my recordmaking. Thank you all very much.

Mr. DELLUMS. I thank the gentleman.

I just have a few questions. Ms. Washington, it is my understanding from your testimony that you have no objection to this legislation, H.R. 6276, as it is written.

Ms. WASHINGTON. That is correct, Mr. Chairman.

Mr. DELLUMS. Do you have any additional points that you would like to make at this point in the record?

Ms. WASHINGTON. None, other than to say that we have concurred with bond counsel with regard to the provisions and the specific language in the bill. The bond counsel, in its opinion, has indicated that the legislation is sufficient to accomplish the overall purpose and intent of the bill.

Mr. DELLUMS. Mr. Reichenberg, I would like to ask you the same two questions. It is my understanding that the city council has no objection whatsoever to the language of H.R. 6276.

Mr. REICHENBERG. That is correct, Mr. Chairman.

Mr. DELLUMS. Do you have any additional comments you would like to make, any statements, in response to some of the questions Mr. McKinney has raised, or any comments or statements that have been made since your opening remarks?

Mr. REICHENBERG. I do not have any additional comments. I think the points have been adequately addressed.

Thank you.

Mr. DELLUMS. Father Whalen, I notice in your prepared remarks that you lay out a rather detailed approach to the student loan program.

The position that the Chair takes, as you know, is that the home rule document is an interesting document that some define as home rule and some say is not quite home rule. So, sometimes I

find myself attempting to interpret, not the letter of the Home Rule Act, but the spirit of it itself.

In this particular situation, I am trying to interpret the spirit of the act, because I don't think we ought to be in the business of laying out a specific student loan program. I think, rather, in a pure view of the situation, we should simply provide the District of Columbia with the necessary language to accomplish this purpose, should they deem it advisable, acceptable, purposeful, et cetera. So, to that extent, I have chosen not to engage with you, as witnesses, in any specific questions regarding laying out the student loan program, itself, but simply to determine whether or not you see it as a need, and that the appropriate political jurisdictions and branches of government—that is, the legislative branch and the executive branch—have no objection to at least providing the mechanism for them to sit down with you, and other appropriate persons, to hammer out a specific program. That tends to be the position of the Chair. Do you have any comments to that?

Father WHALEN. Mr. Chairman, I applaud that. I was going to try to emphasize, again, that while I put together something of a mechanism for this, it was largely for educational purposes for the staff. These nuts and bolts may all change, altogether, as we sit down with the city.

I really do applaud your attitude of leaving this to the city to negotiate, because I really think that is very appropriate and very proper. I agree with that fully.

Mr. DELLUMS. Thank you.

Mr. MCKINNEY. Bill, if you and the guys in your shop have the material down at the city council—or Steve—could you send me a list of the other States that tax other States' bonds, so I have something in my back pocket?

Ms. WASHINGTON. We would be happy to submit that to you.

Mr. MCKINNEY. Thank you.

[The information follows:]

[From the State Tax Review, Mar. 23, 1982]

HOW EXEMPT ARE TAX-EXEMPT BONDS?

Federally tax-exempt state and local governmental obligations have traditionally proven to be a wise investment for many in higher income tax brackets. In order that investors, or potential investors, may properly assess the entire tax picture, we are presenting a chart featuring the state income taxability of these municipal bonds by all 50 states and the District of Columbia. Both individual and corporate investors are considered.

Bonds are designated "X" if taxable. All others are exempt or excluded from tax, or no income taxes are levied by those states. In certain cases, these designations pertain only to general obligation bonds, or to bonds in general. For example, a state may not generally exempt bonds, but some bonds may be specifically exempted by the laws authorizing their issuance.

State	Individuals		Corporations	
	State's own bonds	Other States' bonds	State's own bonds	Other States' bonds
Alabama		X		X
Alaska				
Arizona		X		X
Arkansas		X		X

State	Individuals		Corporations	
	State's own bonds	Other States' bonds	State's own bonds	Other States' bonds
California franchise			X	X
California income		X		X
Colorado		X		X
Connecticut			X	X
Delaware		X		X
District of Columbia				X
Florida			X	X
Georgia		X		X
Hawaii		X		X
Idaho		X		X
Illinois	X	X	X	X
Indiana				
Iowa	X	X	X	X
Kansas	X	X	X	X
Kentucky		X		X
Louisiana		X		X
Maine		X		
Maryland		X		
Massachusetts		X	X	X
Michigan		X		X
Minnesota		X	X	X
Mississippi		X		X
Missouri		X		X
Montana		X		X
Nebraska				
Nevada				
New Hampshire		X		
New Jersey		X	X	X
New Mexico				
New York		X	X	X
North Carolina		X		X
North Dakota		[1] X		X
Ohio		X		X
Oklahoma	X	X	X	X
Oregon		X	X	X
Pennsylvania		X		
Rhode Island		X		X
South Carolina		X		X
South Dakota				
Tennessee		X		X
Texas				
Utah			X	X
Vermont				
Virginia		X		X
Washington				
West Virginia		X		X
Wisconsin	X	X	X	X
Wyoming				

[1] Taxable only if long form is used.

Mr. DELLUMS. The Chair would like to recognize the gentleman from California, Mr. Dymally, for whatever questions or comments he may like to make at this point.

Mr. DYMALLY. Thank you very much, Mr. Chairman.

Just one question, Father, about the administrative costs. What do you anticipate would be the percentage of administrative costs of the whole issue, if at all? Would the college absorb the administrative costs through their regular staff?

Father WHALEN. As to the support of our financial aid officers, they are already on payroll, and the university would just continue that as usual.

There would be other costs, though. There are costs of the issue itself that would go to the underwriters. There are costs to the bank for originating the loans. There are costs to the bank for servicing the loans. There would be a trustee fee. And that could be collection fees in the event of default.

All of those taken together would still likely put the rate of availability of money for student loans considerably below market.

As I say, we really haven't the sharp pencil work on this or the actuarial work that is necessary. But we do hope and believe that it will be significantly below the market rate.

Mr. DYMALLY. What guarantee do we have that there would be some affirmative action input in to the administration of these loans and the issuance of these loans? Will we end up with a group of white, middle-class students getting all the loans?

Father WHALEN. No. As we sometimes say, we treat all of our students exactly the same—namely, badly. We do have in place in the universities affirmative action programs. One of our frustrations is that you get bright, young minority students, and we are in just intensive competition with every other college in the country to get them. That is why there is a major outflow in the District of Columbia of bright students to the colleges in the Northeast and California and other places. We are very much in contention to have those students come in.

As a matter of fact, each one of our institutions has very significant trustee funded scholarship programs for minority students. In connection with the GW bond issue, for example, I might just point out that GW has 144 scholarships for D.C. students who can qualify for entry into the college. I don't think ever once have they all been used because the competition for those students is so intense across the country.

Mr. DYMALLY. California appreciates the fact that you continue to train these high-priced doctors and give them to us free.

Father WHALEN. That is right.

Mr. DYMALLY. Thank you very much, Mr. Chairman.

Mr. DELLUMS. Thank you very much, Mr. Dymally.

The gentleman from Connecticut.

Mr. MCKINNEY. Mr. Chairman, I have a unanimous-consent request.

Mr. DELLUMS. The gentleman will make his request.

Mr. MCKINNEY. The subcommittee report this bill to the full committee.

Mr. DELLUMS. Without objection, so ordered.

Mr. MCKINNEY. Thank you, Mr. Chairman.

Mr. DELLUMS. The bill H.R. 6276 will be reported to the full committee for its consideration.

The Chair, prior to adjournment, would like to thank all of the witnesses for your opening remarks and your contribution to these proceeds. We thank you very much.

Father WHALEN. Thank you, Mr. Chairman.

Ms. WASHINGTON. Thank you.

Mr. REICHENBERG. Thank you, Mr. Chairman.

Mr. DELLUMS. The subcommittee stands adjourned.
[Whereupon, at 10:25 a.m., the subcommittee was adjourned.]

MARKUP SESSION ON H.R. 6276—REVENUE BOND SECTION OF THE HOME RULE ACT

WEDNESDAY, JUNE 23, 1982

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE DISTRICT OF COLUMBIA,
Washington, D.C.

The committee met, pursuant to notice, at 10:35 a.m., in room 1310, Longworth House Office Building, Hon. Ronald V. Dellums (chairman of the committee) presiding.

Present: Delegate Fauntroy, Representatives Leland, Gray, Barnes, Dymally, McKinney, and Bliley.

Also present: Daniel N. Lindheim, staff assistant; Carl Tibbetts, Office of the Legislative Counsel; Johnny Barnes, Dale MacIver, staff councils; and John Gnorski, minority staff director.

The CHAIRMAN. The Committee on the District of Columbia will come to order.

This morning we are meeting to mark up H.R. 6276, a bill to amend the revenue bond section of the Home Rule Act to permit the District to sell revenue bonds to provide for student loans.

H.R. 6276 is essentially a minor amendment to the bill, H.R. 4910, which was passed and signed into law last year.

It simply adds to the list of permissible purposes for revenue bonds the sale of such bonds for the purpose of financing a student loan program.

You will note in your folders a copy of the page from H.R. 4910, now a part of the Home Rule Charter, which lists acceptable revenue bond purposes and the spot where the language of H.R. 6276 is to be inserted.

The issue before us is a very limited one. It is only whether or not the District should be allowed to make its own determination regarding the advisability of establishing a loan program backed by the sale of revenue bonds.

We are not here to determine the detailed design of such a loan program. Rather, it is the responsibility and the right of the people of the District to create the program they deem to be in accord with their needs.

The Subcommittee on Fiscal Affairs and Health held hearings on May 26 of this year. At that time the bill was favorably reported to the full committee.

Testimony was received from three witnesses—Ms. Barbara Washington, the Assistant Administrator for Intergovernmental Relations of the District government; Mr. Steve Reichenberg, the Budget Adviser to the Chairman of the District Council; and

Father John Whalen, executive director of the Consortium of Universities.

Testimony was all supportive of the bill. No arguments against the bill were present or were made known to the committee.

I would like to point out that this legislation neither causes nor implies any Federal Government financing nor responsibility for these bonds.

The Chair would now recognize any other members for any opening comments they may have.

Mr. FAUNTROY. Mr. Chairman, let me simply associate myself with the remarks that you have made on H.R. 6276, and state that I certainly hope that we will pass this quickly and the District government will be free then to make necessary decisions on how we will handle the student loan program for our city.

The CHAIRMAN. Thank you.

Mr. McKinney?

Mr. MCKINNEY. I thank the gentleman.

I think you have covered the situation very well. I am delighted to see that we are going to give this power to the city government.

I think this is an innovative program. Many States are going to it. I think the city should have the same opportunity.

The CHAIRMAN. Are there any other comments?

Without objection, a copy of H.R. 6276 will be placed in the record at this point, considered as read, and open to amendment at any point.

[H.R. 6276 follows:]

[H.R. 6276, 97th Congress, 2d session]

A BILL To amend the District of Columbia Self-Government and Governmental Reorganization Act to allow the issuance of revenue bonds to finance college and university programs which provide student educational loans

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the first sentence of section 490(a)(1) of the District of Columbia Self-Government and Governmental Reorganization Act (D.C. Code, sec. 47-334) is amended by inserting "college and university programs which provide loans for the payment of educational expenses for or on behalf of students," after "college and university facilities,".

The CHAIRMAN. The Chair would note that we are awaiting one additional person at this time.

Mr. DYMALLY. I am informed that some of the members are on their way to the hearing.

The CHAIRMAN. I note the gentleman from Virginia is here. He is one of the coauthors and prime movers of the legislation.

Mr. BLILEY. I want to thank you for bringing this to our attention and hope that everybody will support this and that we can get on to the floor with this and hopefully have it enacted in time to be of help.

Mr. MCKINNEY. When do you think we should bring this on?

The CHAIRMAN. The Chair would think the 25th would be the date. The Chair would think that since the members will be coming back on the 11th, that some of us will not be able to be here.

The Chair would suggest that the date be July 25, after the break.

Mr. MCKINNEY. Thank you. I have no problems with that.

The CHAIRMAN. Do any members have questions with respect to this?

If not, at this time we will consider a motion to bring up the bill, H.R. 6276.

Do I hear such a motion? It is so moved by Mr. McKinney.

All in favor, say aye.

[Chorus of ayes.]

The CHAIRMAN. Opposed, nay.

[No response.]

The CHAIRMAN. The ayes have it. We are considering H.R. 6276.

Are there any amendments?

If not, we will consider a motion to favorably report the bill to the floor of the House. Do I hear such a motion?

Mr. MCKINNEY. I so move.

The CHAIRMAN. We will report the bill by a rollcall.

The Clerk will call the roll.

The CLERK. Mr. Fauntroy?

Mr. FAUNTROY. Aye.

The CLERK. Mr. Mazzoli?

[No response.]

The CLERK. Mr. Stark?

[No response.]

The CLERK. Mr. Leland?

Mr. LELAND. Aye.

The CLERK. Mr. Gray?

Mr. GRAY. Aye.

The CLERK. Mr. Barnes?

Mr. BARNES. Aye.

The CLERK. Mr. Dymally?

Mr. DYMALLY. Aye.

The CLERK. Mr. McKinney?

Mr. MCKINNEY. Aye.

The CLERK. Mr. Parris?

Mr. MCKINNEY. Aye, by proxy.

The CLERK. Mr. Bliley?

Mr. BLILEY. Aye.

The CLERK. Mrs. Holt?

Mr. MCKINNEY. Aye, by proxy.

The CLERK. Mr. Dellums?

The CHAIRMAN. Aye.

The CLERK. Mr. Chairman, there were 10 ayes and 0 nays.

The CHAIRMAN. On a vote of 10 ayes and no nays, the bill, H.R. 6276, is approved and will be favorably reported to the full committee.

Is there any additional business to come before the committee?

If not, the full committee stands adjourned.

[Whereupon, at 10:45 a.m., the committee was adjourned.]

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